

PERAC AUDIT REPORT



Winthrop Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2006



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

August 15, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Winthrop Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan and James Sweeney who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Board Member Attendance

A review of meeting attendance by Board members revealed that a Board member missed 36% of the 11 Board meetings reviewed since the most recent PERAC Follow-up audit completed in May 2006. The result is an attendance rate for a Board member that was below the seventy-five percent minimum considered reasonable for the period evaluated. Furthermore, over the 26 Board meetings completed from February 2005 through April 2007, 3 of the 5 members attended via conference call from 8% to 27% of the time. The Board minutes reflected that their votes were counted which is in conflict with G.L. c. 39, §23B Open Meetings Law.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. Although conference calls at times are necessary due to Board member schedules, they should be used sparingly since the Open Meetings Law restricts official attendance and voting rights when not physically present.

Board Response:

The retirement system has adopted the Commission's recommendations regarding Board Member Attendance.

2. Regular Compensation

There are several Collective Bargaining Agreements in the governmental units that include clothing allowance payments for employees. The payments are made by regular Accounts Payable check. Retirement deductions are not withheld on these payments. These are regular recurring payments, which should be classified as regular earnings for retirement purposes.

Recommendation: Clothing allowances should be considered regular compensation pursuant to 840 CMR 15.03(1) (a) which states in part:

“(a) To be considered regular compensation, any compensation to an employee must: ...

3. be ordinary, normal, recurring, repeated...

4. be made pursuant to an official written policy of the employer or to a collective bargaining agreement;”

The Board must formally instruct the payroll officers to begin withholding retirement deductions on clothing allowances paid to members. The rate of deduction must be at the same rate as the member's other compensation, plus the additional 2% if total annualized compensation exceeds \$30,000 for any pay period.

Board Response:

The Board will discuss the clothing allowance compensation with Union Representatives upon contract renewal.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

3. Post – Retirement Earnings Limitation

An employee of the Town of Winthrop is collecting a monthly pension benefit from the Massachusetts Teachers' Retirement System (MTRS), and working as a full-time employee. Although he is in compliance with the earnings limitation on public sector retiree earnings, the 1,820 annual hours worked are well in excess of the 960 hour limitation. The aforementioned law is stipulated in G. L. c. 32, § 91, and PERAC Memos Number 3 and 20 of 2004.

The auditor also observed that an employee in the Town of Winthrop school system is collecting a monthly pension benefit from the Massachusetts Teachers' Retirement System, and working as a full-time employee within the school system. If there is a critical shortage of certified teachers available for employment in a school district, a request for a waiver to exceed the limits of G. L. c. 32, § 91 should be made to the Department of Education (DOE). A waiver for this employee was not provided by the close of the audit fieldwork.

Recommendation: The Board must work with the Town of Winthrop and the MTRS to ensure compliance with G. L. c. 32, § 91. A waiver for the retired teacher employed in the school department should be obtained from the DOE.

Board Response:

The employee of the Town of Winthrop has since resigned.

The Board has informed the school department, and they are in the process of requesting a letter for a waiver from the (DOE).

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

		AS OF DECEMBER 31,	
		2006	2005
Net Assets Available to Pay Benefits:			
Cash		\$3,021,275	\$2,427,711
PRIT Cash Fund		0	300,138
PRIT Core Fund		33,489,683	28,235,630
Interest Due and Accrued		0	0
Accounts Receivable		38,082	4,716
Total		<u>\$36,549,039</u>	<u>\$30,968,195</u>
Fund Balances:			
Annuity Savings Fund		\$8,343,783	\$7,397,185
Annuity Reserve Fund		2,451,129	2,598,786
Pension Fund		5,381,544	5,146,612
Military Service Fund		0	0
Expense Fund		0	0
Pension Reserve Fund		20,372,582	15,825,612
Total		<u>\$36,549,039</u>	<u>\$30,968,195</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2005)	6,866,157	2,564,918	4,860,847	0	0	12,944,611	27,236,532
Receipts	942,411	73,499	2,629,605	0	282,052	2,881,001	6,808,567
Inter Fund Transfers	(291,924)	292,345	(421)	0	0	0	(0)
Disbursements	(119,458)	(331,976)	(2,343,418)	0	(282,052)	0	(3,076,905)
Ending Balance (2005)	7,397,185	2,598,786	5,146,612	0	(0)	15,825,612	30,968,195
Receipts	1,189,419	73,968	2,656,837	0	241,539	4,554,954	8,716,717
Inter Fund Transfers	(124,095)	132,078	0	0	0	(7,984)	0
Disbursements	(118,727)	(353,702)	(2,421,906)	0	(241,539)	0	(3,135,873)
Ending Balance (2006)	<u>\$8,343,783</u>	<u>\$2,451,129</u>	<u>\$5,381,544</u>	<u>\$0</u>	<u>(\$0)</u>	<u>\$20,372,582</u>	<u>\$36,549,039</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Annuity Savings Fund:		
Members Deductions	\$882,018	\$794,453
Transfers from Other Systems	208,484	75,492
Member Make Up Payments and Re-deposits	55,181	23,617
Member Payments from Rollovers	0	10,853
Investment Income Credited to Member Accounts	<u>43,736</u>	<u>37,995</u>
Sub Total	<u>1,189,419</u>	<u>942,411</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>73,968</u>	<u>73,499</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems	43,760	36,113
Received from Commonwealth for COLA and Survivor Benefits	107,241	172,924
Pension Fund Appropriation	<u>2,505,836</u>	<u>2,420,568</u>
Sub Total	<u>2,656,837</u>	<u>2,629,605</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>241,539</u>	<u>282,052</u>
Sub Total	<u>241,539</u>	<u>282,052</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	0	0
Pension Reserve Appropriation	0	0
Interest Not Refunded	2,325	237
Miscellaneous Income	2,176	0
Excess Investment Income	<u>4,550,453</u>	<u>2,880,764</u>
Sub Total	<u>4,554,954</u>	<u>2,881,001</u>
Total Receipts	<u>\$8,716,717</u>	<u>\$6,808,567</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Annuity Savings Fund:		
Refunds to Members	\$75,271	\$112,731
Transfers to Other Systems	<u>43,456</u>	<u>6,728</u>
Sub Total	<u>118,727</u>	<u>119,458</u>
Annuity Reserve Fund:		
Annuities Paid	353,702	331,976
Option B Refunds	<u>0</u>	<u>0</u>
Sub Total	<u>353,702</u>	<u>331,976</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	1,587,438	1,505,849
Survivorship Payments	110,449	115,341
Ordinary Disability Payments	14,068	13,708
Accidental Disability Payments	473,642	463,473
Accidental Death Payments	106,549	115,953
Section 101 Benefits	7,877	7,647
3 (8) (c) Reimbursements to Other Systems	97,742	97,716
State Reimbursable COLA's Paid	24,141	23,731
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>2,421,906</u>	<u>2,343,418</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	0	0
Salaries	25,629	67,760
Legal Expenses	22,257	6,898
Medical Expenses	0	0
Travel Expenses	118	1,432
Administrative Expenses	6,649	15,298
Management Fees	179,039	172,952
Custodial Fees	0	3,680
Consultant Fees	0	6,250
Service Contracts	7,481	7,417
Fiduciary Insurance	<u>365</u>	<u>365</u>
Sub Total	<u>241,539</u>	<u>282,052</u>
Total Disbursements	<u>\$3,135,873</u>	<u>\$3,076,905</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Investment Income Received From:		
Cash	\$75,883	\$59,692
Short Term Investments	0	931
Fixed Income	0	30,654
Equities	495	18,073
Pooled or Mutual Funds	1,034,400	851,265
Commission Recapture	0	0
Total Investment Income	<u>1,110,778</u>	<u>960,616</u>
Plus:		
Realized Gains	2,111,497	3,067,064
Unrealized Gains	2,852,066	2,706,195
Interest Due and Accrued - Current Year	0	0
Sub Total	<u>4,963,563</u>	<u>5,773,259</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	0	0
Realized Loss	0	0
Unrealized Loss	(1,164,644)	(3,410,080)
Interest Due and Accrued - Prior Year	0	(49,485)
Sub Total	<u>(1,164,644)</u>	<u>(3,459,564)</u>
Net Investment Income	<u>4,909,696</u>	<u>3,274,311</u>
Income Required:		
Annuity Savings Fund	43,736	37,995
Annuity Reserve Fund	73,968	73,499
Military Service Fund	0	0
Expense Fund	241,539	282,052
Total Income Required	<u>359,243</u>	<u>393,546</u>
Net Investment Income	4,909,696	3,274,311
Less: Total Income Required	<u>359,243</u>	<u>393,546</u>
Excess Income To The Pension Reserve Fund	<u>\$4,550,453</u>	<u>\$2,880,764</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$3,021,275	8.3%	100%
PRIT Cash Fund	0	0.0%	
PRIT Core Fund	<u>33,489,683</u>	<u>91.7%</u>	100%
Grand Total	<u>\$36,510,957</u>	<u>100.0%</u>	

For the year ending December 31, 2006, the rate of return for the investments of the Winthrop Retirement System was 15.84%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Winthrop Retirement System averaged 9.19%. For the twenty-two-year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Winthrop Retirement System was 10.23%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Winthrop Retirement System is 100% invested with the Pension Reserves Investment Trust Fund, therefore supplemental investment regulations promulgated are no longer applicable.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Winthrop Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, §. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, §. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, §. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$648.48 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, §. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Winthrop Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 17, 2003

A full year for a Winthrop School Department employee who is a member of the Winthrop retirement System shall consist of the school year of approximately 180 workdays. For all other employee-members of the Winthrop Retirement System, a full year of creditable service shall be based upon the calendar year.

July 19, 1999

DEFINITION OF A FULL YEAR: A full year of employment shall be credited with a full year of creditable service. Work of less than a full year shall be credited pro-rata to the appropriate full year. A full year of employment shall be deemed to be year of work at a job in which no other hours in a week are available to perform said job.

ELIGIBILITY FOR MEMBERSHIP: Full Time (35 or more hours per week) Employees who work at least 35 hours per week will become members of the retirement system as of their date of employment and will be deemed full time employees. Part time (24 to 34.999 hours per week) Employees who work 24 to 34.999 hours per week after six months of employment will become members of the retirement system and will be deemed part time employees.

This Board shall have full jurisdiction to determine eligibility of employees for membership in all cases involving part-time, provisional, temporary, temporary provisional, seasonal or intermittent employment or service. Work of a seasonal nature shall be credited as one year of service for at least seven calendar months of work.

ENROLLMENT: Every employee who is eligible to become a member of the Winthrop Retirement System must complete the necessary enrollment and beneficiary forms, including a birth certificate and, if a veteran of the armed forces, a military service discharge or its equivalent. Elected officials may enroll within 90 days after the date of assuming office. If they do not enroll during that period, they waive eligibility for membership in the system for that term of office. All references to full time employment or a full year or similar terms in these regulations shall be deemed to be governed by their definitions.

CREDIT FOR PART-TIME SERVICE FOR WORK WHILE A MEMBER IN SERVICE:

Full Year Credit: Part-time work shall be credited as a full year of service for a full year of work, work of less than a full year shall be credited pro-rata.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

CREDIT FOR PART-TIME SERVICE PRIOR TO MEMBERSHIP: Within one year of becoming a member of the Winthrop Retirement System, each person shall file a statement detailing all service for which he claims credit towards retirement in this system. 1/2 credit shall be allowed for buy-back of less than 24 hours per week for a full year.

BENEFITS TO CHILDREN OF RETIREES: Benefits will be paid in accordance with G.L. c. 32 sec's. 7, 9, and 12 option d and 12B. Each year by September 1, proof of enrollment in an accredited educational institution must be presented for every child over age 18 in order to receive additional benefits as provided by law.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Michael Bertino

Appointed Member: Cindy Silva Term Expires: 8/21/07

Elected Member: Brian Perrin **Term Expires:** 10/21/08

Elected Member: Michael McManus Term Expires: 12/20/07

Appointed Member: Erica Cocca Term Expires: 6/25/07

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$50,000,000 Fiduciary MACRS
Elected Member:)	Policy
Appointed Member:)	\$1,000,000 Fidelity MACRS Policy
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2005.

The actuarial liability for active members was	\$20,361,908
The actuarial liability for vested terminated members was	259,593
The actuarial liability for non-vested terminated members was	91,696
The actuarial liability for retired members was	22,753,230
The total actuarial liability was	<u>43,466,427</u>
System assets as of that date were	27,318,704
The unfunded actuarial liability was	<u>\$16,147,723</u>
 The ratio of system's assets to total actuarial liability was	 62.9%
As of that date the total covered employee payroll was	\$8,329,783

The normal cost for employees on that date was 8.00% of payroll

The normal cost for the employer was 7.80% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum

Rate of Salary Increase: Varies by group

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2005	\$27,318,704	\$43,466,427	\$16,147,723	62.9%	\$8,329,783	193.9%
1/1/2003	\$22,435,749	\$38,228,027	\$15,792,278	58.7%	\$8,191,365	192.8%
1/1/2001	\$22,822,904	\$34,578,145	\$11,755,241	66.0%	\$7,223,140	162.7%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	*	1	0	*	1	1	6	12	8	3
Ordinary Disability	*	0	0	*	0	0	0	0	0	0
Accidental Disability	*	1	0	*	0	0	1	0	1	1
Total Retirements	0	2	0	0	1	1	7	12	9	4
Total Retirees, Beneficiaries and Survivors	190	192	178	169	166	161	168	177	182	181
Total Active Members	227	252	255	263	258	257	249	265	271	274
Pension Payments										
Superannuation	*	\$1,420,148	\$1,404,500	\$1,388,056	\$1,344,439	\$1,270,649	\$1,273,477	\$1,447,323	\$1,505,849	\$1,587,438
Survivor/Beneficiary Payments	*	47,697	46,345	60,611	100,316	111,517	112,821	121,872	115,341	110,449
Ordinary Disability	*	75,198	27,507	21,436	24,145	12,448	12,808	13,348	13,708	14,068
Accidental Disability	*	30,629	294,629	297,413	298,237	333,555	362,132	412,795	463,473	473,642
Other	*	62,761	107,060	*	263,722	255,803	255,741	252,339	245,047	236,309
Total Payments for Year	\$1,612,744	\$1,636,433	\$1,880,041	\$1,767,516	\$2,030,859	\$1,983,972	\$2,016,979	\$2,247,676	\$2,343,418	\$2,421,906

* Data Unavailable

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